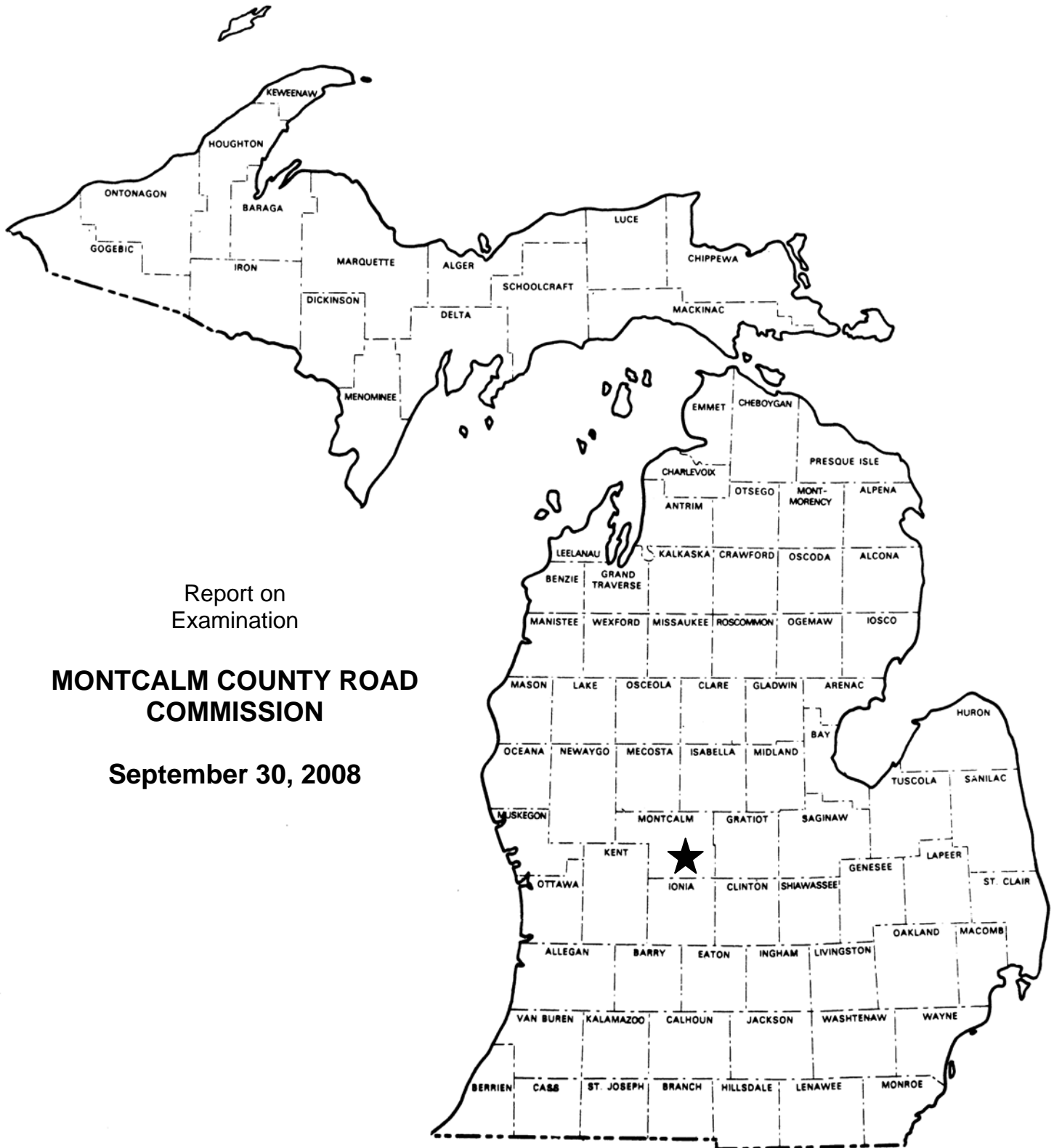


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Local Audit and Finance Division
Bureau of Local Government Services

MONTCALM COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Dale Linton
Chairperson

Robert Brundage
Vice Chairperson

Donald McCracken
Member

Randy Stearns
Managing Director

Karen Swan
Finance Director/Clerk

COUNTY POPULATION--2000
61,266

STATE EQUALIZED VALUATION--2008
\$2,354,644,687



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 22, 2009

Montcalm County Road Commission
Board of County Road Commissioners
619 West Main Street
P.O. Box 337
Stanton, Michigan 48888

RE: Unqualified Opinions on Basic Financial Statements Accompanied by Required
Supplementary Information and Supplementary Information

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Montcalm County Road Commission, a component unit of Montcalm County, Michigan, as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montcalm County Road Commission as of September 30, 2008 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2009 on our consideration of the Montcalm County Road Commission's internal

control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 7 and the budgetary comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Montcalm County Road Commission's basic financial statements. The accompanying supplementary and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MONTCALM COUNTY ROAD COMMISSION

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MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2008

Using this Annual Report

The Montcalm County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2008

Report the Road Commission's Major Fund

The fund financial statements begin on page eight and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 2.98% or \$960,263 from \$32,191,312 to \$33,149,535 for the year ended September 30, 2008. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$190,252. The investment in capital assets-net of related debt, increased by \$767,971, which was primarily due to the current year's \$2,927,976 increase in infrastructure and depreciation expense (decrease) related to infrastructure of \$2,475,203.

MONTCALM COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008

The table below shows a comparison of the net assets of the current year ended September 30, 2008 (compared to the prior year) as follows:

	Governmental Activities <u>09/30/07</u>	Governmental Activities <u>09/30/08</u>	Variance Increase (Decrease) <u></u>
Assets			
Current and Other Assets	\$ 2,817,225	\$ 3,050,794	\$ 233,569
Net Capital Assets	<u>31,369,292</u>	<u>31,863,308</u>	<u>494,016</u>
Total Assets	<u>34,186,517</u>	<u>34,914,102</u>	<u>727,585</u>
Liabilities			
Current Liabilities	478,813	639,909	161,096
Long-Term Liabilities	<u>1,516,392</u>	<u>1,124,658</u>	<u>(391,734)</u>
Total Liabilities	<u>1,995,205</u>	<u>1,764,567</u>	<u>(230,638)</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	29,952,598	30,720,569	767,971
Restricted	<u>2,238,714</u>	<u>2,428,966</u>	<u>190,252</u>
Total Net Assets	<u><u>\$ 32,191,312</u></u>	<u><u>\$ 33,149,535</u></u>	<u><u>\$ 958,223</u></u>

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2008

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2008 (compared to the prior year) as follows:

	Governmental Activities 09/30/07	Governmental Activities 09/30/08	Total Percentage Change
Program Revenue			
Licenses and Permits	\$ 15,368	\$ 18,115	15.16%
Federal Grants	388,872	570,538	31.84%
State Grants	6,093,318	6,376,519	4.44%
Contributions From Local Units	1,777,951	1,813,068	1.94%
Charges for Services	944,474	1,272,823	25.80%
Investment Earnings	158,623	133,484	-18.83%
Reimbursements	5,599	4,280	-30.82%
General Revenue			
Private and Other Contributions	612,822	15,155	-3943.70%
Taxes	591	569	-3.87%
Gail on Disposal	5,000		-100.00%
Total Revenue	10,002,618	10,204,551	1.98%
Expenses			
Primary Road Maintenance	1,348,608	1,448,511	-6.90%
Local Road Maintenance	3,888,980	3,941,512	-1.33%
State Trunkline Maintenance	934,834	1,217,729	-23.23%
Non-Road Project	322,331	97,171	231.72%
Net Equipment Expense	(152,415)	(382,727)	-60.18%
Net Administrative Expense	463,312	396,798	16.76%
Infrastructure Depreciation	2,422,253	2,475,203	-2.14%
Compensated Absences	547	5,831	-90.62%
Interest Expense	47,953	44,260	8.34%
Total Expenses	9,276,403	9,244,288	0.35%
Increase (Decrease) in Net Assets	\$ 726,215	\$ 960,263	-24.37%

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2008

For the year ended September 30, 2008, the fund balance of the General Operations Fund increased to \$2,510,224 following an increase of \$196,083 in the fund balance for the year ended September 30, 2007 (last year). Total operating revenues were \$10,204,551, an increase of \$196,934 as compared to last year, which was primarily the result of an increase in Federal Grants of \$181,665; an increase of \$283,204 in State Grants; an increase in Township Contributions of \$35,117; an increase in Charges for Services of \$328,348; a decrease in Interest and Dividends of \$25,139; and a decrease in Contributions from Private Sources in the amount of \$597,667.

Total expenditures of \$10,008,468 equaled an increase of \$259,678 as compared to last year. This was primarily the result of an increase in State Trunk-line Maintenance and Non-Maintenance expenditures of \$282,895, an increase in Routine and Preventive Maintenance of \$167,326, a decrease in Preservation /Structural Improvements of \$65,853 and a decrease of \$66,515 in Administrative Expense.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2008 was less than the actual revenue by \$63,678. This was due, in large part, to actual Township Contributions being less by \$22,572; actual Equipment Rental being less by \$11,660; and actual Depreciation being less by \$19,892.

The Road Commission's original expenditures were projected at \$13,353,080, while actual expenditures were \$12,863,627. This resulted in total expenditures being under budget by \$489,453. This was primarily due to actual Primary Road expenditures being lower by \$122,390; Local Road expenditures being lower by \$181,618; Equipment Expenditures being lower by \$127,680; and Administrative Expense being lower by \$24,985.

MONTCALM COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2008, the Road Commission had \$31,863,308 invested in capital assets as follows:

	<u>09/30/07</u>	<u>09/30/08</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land/Right-of-Way	\$ 28,708	\$ 28,708	0%
Land Improvements	4,690,355	4,690,355	0%
Construction-in-Progress		246,696	100%
Subtotal	<u>4,719,063</u>	<u>4,965,759</u>	<u>5%</u>
Capital Assets Being Depreciated			
Buildings	2,204,785	2,204,785	0%
Road Equipment	6,832,238	6,915,827	1%
Shop Equipment	118,954	120,627	1%
Office Equipment	161,763	161,763	0%
Engineers Equipment	44,892	46,891	4%
Yard and Storage	359,683	359,683	0%
Infrastructure--Bridges	9,151,205	9,882,912	7%
Infrastructure--Roads	53,280,437	55,476,707	4%
Depletable Assets	<u>6,750</u>	<u>6,750</u>	<u>0%</u>
Subtotal	<u>72,160,707</u>	<u>75,175,945</u>	<u>4%</u>
Total Capital Assets	<u>76,879,770</u>	<u>80,141,704</u>	<u>4%</u>
Total Accumulated Depreciation	<u>(45,510,478)</u>	<u>(48,278,396)</u>	<u>6%</u>
Total Net Capital Assets	<u><u>\$ 31,369,292</u></u>	<u><u>\$ 31,863,308</u></u>	<u><u>2%</u></u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,927,976. The infrastructure recorded during 2008 will be depreciated beginning in the following year. The infrastructure is financed through Federal, State and local contributions.

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2008

This year's major capital asset additions included the following:

Reconstruction of Bridges (by location)	\$ 731,707
Various Resurfacing Projects and Related Land/Right-of-Way	2,196,270
Trucks/Equipment	83,589
Buildings	
Shop Equipment	1,672
Administrative/Engineering	2,000
Construction in Progress	<u>246,696</u>
Total Additions	<u><u>\$3,261,934</u></u>

There were no new installment purchase or long-term debt agreements entered into in 2008. The Road Commission extended the long-term debt agreements for two motor graders for an additional two years. There was no equipment traded in or disposed of in 2008.

Debt

The Road Commission currently has long-term debt in the amount of \$1,223,997, a decrease of \$268,125 from the prior year. The long-term debt represents Public Act 143 bonds, two lease-purchase agreements and compensated absences payable at September 30, 2008.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy and high fuel prices. The Road Commission derives approximately half of its revenues from the fuel tax collected. The economic downturn and high fuel prices have resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Montcalm County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Montcalm County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Montcalm County administrative offices at: 619 West Main Street, Stanton, Michigan 48888.

MONTCALM COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2008

EXHIBIT A

ASSETS

Cash	\$ 816,718
Accounts Receivable	
Sundry Accounts	502
State--Trunkline Maintenance	42,850
Michigan Transportation Fund	927,784
State--Other	159,985
Due from Cities/Villages	7,851
Due on County Road Agreements	265,146
Inventories	
Road Materials	380,628
Equipment Parts and Materials	278,685
Restricted Investments	170,645
Capital Assets (Net of Accumulated Depreciation)	<u>31,863,308</u>
Total Assets	<u>34,914,102</u>

LIABILITIES

Current Liabilities	
Accounts Payable	271,545
Due to State of Michigan	9,221
Payroll Deductions Payable	(529)
Accrued Liabilities	51,217
Performance Bonds Payable	2,250
Notes Payable--Due in 1 year	200,000
Installment Purchase Agreements Payable--Due in 1 year	106,205
Non-Current Liabilities	
Advances From State	156,865
Advance From Townships	50,000
Notes Payable	800,000
Installment Purchase Agreements Payable	36,534
Vested Employee Benefits Payable	<u>81,258</u>
Total Liabilities	<u>1,764,566</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	30,720,569
Restricted for County Roads	<u>2,428,966</u>
Total Net Assets	<u><u>\$ 33,149,535</u></u>

The Notes to Financial Statements are an integral part of this statement.

MONTCALM COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,448,511
Local Road Routine and Preventive Maintenance	3,941,512
State Trunkline Maintenance	1,217,729
Net Equipment Expense	(382,727)
Net Administrative Expense	396,798
Infrastructure Depreciation	2,475,203
Compensated Absences	5,831
Interest Expense	44,260
	<hr/>
Total Program Expenses	9,244,288
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	18,115
Charges for Services	1,272,823
Reimbursements	4,280
Operating Grants and Contributions	
State Grants--Michigan Transportation Funds	5,387,803
Investment Earnings	133,484
Capital Grants and Contributions	
Federal Grants	570,537
State Grants	988,717
Contributions From Local Units	1,813,068
Private Contributions	15,155
	<hr/>
Total Program Revenue	10,203,982
	<hr/>
Net Program Revenue	959,694
	<hr/>
General Revenue	
Taxes	569
	<hr/>
Total General Revenues and Transfers In	569
	<hr/>
Change in Net Assets	960,263
	<hr/>
Net Assets	
Beginning of Year	32,191,312
	<hr/>
End of Year	\$ 33,149,535
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

MONTCALM COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2008

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 816,718
Accounts Receivable	
State Trunkline Maintenance	42,850
Michigan Transportation Fund	927,784
State--Other	159,985
Due From Other Governmental Units	7,850
Due on County Road Agreements	265,146
Sundry Receivables	502
Inventories	
Road Materials	380,628
Equipment Parts and Materials	278,685
Restricted Investments	<u>170,645</u>
Total Assets	<u><u>\$ 3,050,793</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 271,545
Due to State	9,221
Escrow Payable	1,721
Accrued Liabilities	51,217
Advances	
State Trunkline Equipment Purchase	63,319
State Trunkline Maintenance	93,546
Township Road Agreement	<u>50,000</u>
Total Liabilities	<u>540,569</u>
Fund Equities	
Fund Balance	
Reserved for Capital Improvements	170,645
Reserved for Inventory	659,313
Unreserved and Undesignated	<u>1,680,266</u>
Total Fund Equities	<u>2,510,224</u>
Total Liabilities and Fund Equities	<u><u>\$ 3,050,793</u></u>

The Notes to Financial Statements are an integral part of this statement.

**MONTCALM COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2008**

EXHIBIT D

Total Governmental Fund Balance	\$ 2,510,224
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	31,863,308
---	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(1,223,997)</u>
--	--------------------

Net Assets of Governmental Activities	<u><u>\$ 33,149,535</u></u>
---------------------------------------	-----------------------------

The Notes to Financial Statements are an integral part of this statement.

**MONTCALM COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2008**

EXHIBIT E

	Operating Fund
Revenues	
Taxes	\$ 569
Licenses and Permits	18,115
Federal Grants	570,538
State Grants	6,376,519
Contributions From Local Units	1,813,068
Charges for Services	1,272,823
Interest and Rents	133,484
Other Revenue	19,435
	<hr/>
Total Revenues	10,204,551
	<hr/>
Expenditures	
Public Works	9,356,296
Capital Outlay	333,957
Debt Service	318,215
	<hr/>
Total Expenditures	10,008,468
	<hr/>
Excess of Revenues Over (Under) Expenditures	196,083
	<hr/>
Fund Balance--October 1, 2007	2,314,141
	<hr/>
Fund Balance--September 30, 2008	\$ 2,510,224
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**MONTCALM COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 196,083

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period. 496,056
Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
but entering into lease agreements increases long-term liabilities in the
Statement of Net Assets. Repayment of notes/leases payable is an
expenditure in governmental funds, but reduces the long-term liabilities in the
Statement of Net Assets. 273,955

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in governmental funds. (Increase in compensated absences and decrease in
interest expense.) (5,831)

Change in Net Assets of Governmental Activities \$ 960,263

The Notes to Financial Statements are an integral part of this statement.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

The accounting policies of the Montcalm County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Montcalm County Road Commission.

NOTE A--REPORTING ENTITY

The Montcalm County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by a 3 member elected board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners, and property taxes would be levied under the taxing authority of the county, as approved by the county electors. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Montcalm County Road Commission, a discretely presented component unit of Montcalm County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Montcalm County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; and 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Montcalm County Road Commission as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of five years. However, all equipment items (regardless of purchase price or useful life) that have a Schedule C code and rate (Michigan Department of Transportation's "Equipment Rental Rates" report) are capitalized. Such assets are recorded at historical costs or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. During 2003, the Montcalm County Road Commission capitalized the current year's infrastructure and has also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (managing director) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board of road commissioners conducts a public budget hearing and, subsequently, adopts the operating budget. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget Violations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The Road Commission has not complied with certain provisions of the act.

The following activities exceeded the amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable) Variance</u>
Non-Motorized Transportation	\$ 91,500	\$ 97,171	\$ (5,671)
Net Capital Outlay	11,145	28,850	(17,705)

NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated two banks for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash	\$ 816,718
Restricted Investments	<u>170,645</u>
Total	<u><u>\$ 987,363</u></u>

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 816,668
Investments in Uncategorized Pooled Investment Funds	170,645
Petty Cash and Cash on Hand	<u>50</u>
Total	<u><u>\$ 987,363</u></u>

The bank balance of the primary government's deposits is \$1,125,372, of which \$100,000 is covered by Federal depository insurance. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009.

Restricted cash and investments at September 30, 2008 consist of \$170,645 for road improvements.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited its investments to uncategorized pooled investment funds.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission has not addressed interest rate risk in their investment policy.

Credit Risk

Pooled investments are on deposit with MBIA. The Michigan Class Pool has been rated AAA-V1 by Fitch.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Long-term certificates of deposit do not have a rating provided by a nationally recognized statistical rating organization.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

NOTE E--DEFERRED COMPENSATION PLAN

The Montcalm County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Notes	Account Balances 10/01/07	Additions	Deductions	Account Balances 09/30/08
Capital Assets Not Being Depreciated					
Land		\$ 28,708			\$ 28,708
Infrastructure--Land Improvements		4,690,355			4,690,355
Construction in Progress			\$ 246,696		246,696
Subtotal		4,719,063	246,696	\$ -	4,965,759
Capital Assets Being Depreciated					
Buildings		2,204,785			2,204,785
Road Equipment		6,832,238	83,589		6,915,827
Shop Equipment		118,954	1,672		120,626
Office Equipment		161,763			161,763
Engineer's Equipment		44,892	2,000		46,892
Yard and Storage		359,683			359,683
Infrastructure--Bridges		9,151,205	731,707		9,882,912
Infrastructure--Roads		53,280,437	2,196,270		55,476,707
Depletable Assets		6,750			6,750
Total		72,160,707	3,015,238	-	75,175,945
Less: Accumulated Depreciation					
Building		616,128	45,305		661,433
Road Equipment		6,278,684	243,302		6,521,986
Shop Equipment		76,873	3,275		80,148
Office Equipment	1	140,447		3,512	136,935
Engineer's Equipment		38,042	4,345		42,387
Yard and Storage		359,683			359,683
Infrastructure--Bridges		3,349,052	200,178		3,549,230
Infrastructure--Roads		34,644,819	2,275,025		36,919,844
Depletable Assets		6,750			6,750
Total		45,510,478	2,771,430	3,512	48,278,396
Net Capital Assets Being Depreciated		26,650,229	3,015,238	2,767,918	26,897,549
Total Net Capital Assets		<u>\$ 31,369,292</u>	<u>\$ 3,261,934</u>	<u>\$ 2,767,918</u>	<u>\$ 31,863,308</u>

Note 1: The reduction to office equipment of \$3,512 is due to an over charge of depreciation in a prior year which was corrected in 2008.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 223,489
Indirect Equipment	
Buildings	36,043
Shop Equipment	3,275
Net Administrative Expense	
Buildings	9,262
Office Equipment and Furniture	(3,512)
Road Equipment	19,813
Engineer's Equipment	4,345
Infrastructure	<u>2,475,203</u>
Total Depreciation Expense	<u><u>\$2,767,918</u></u>

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Notes</u>	<u>Balance</u> <u>10/01/07</u>	<u>Additions</u> <u>(Reduction)</u>	<u>Balance</u> <u>09/30/08</u>	<u>Due Within</u> <u>One Year</u>
Michigan Transportation Revenue (Act 143 of 1943)		\$1,200,000	\$(200,000)	\$1,000,000	\$ 200,000
Installment Purchase Agreements Caterpillar Financial Services Grader 2003	2	216,695	(73,956)	142,739	106,205
Vested Employee Benefits Vacation		49,969	10,929	60,898	
Personal Paid Time Off	1	15,520	(2,656)	12,864	
Sick		<u>9,938</u>	<u>(2,442)</u>	<u>7,496</u>	
Total		<u><u>\$1,492,122</u></u>	<u><u>\$(268,125)</u></u>	<u><u>\$1,223,997</u></u>	<u><u>\$ 306,205</u></u>

Note 1: Personal paid time off is accumulated by employees and can be used for illnesses or vacation time off.

Note 2: The Road Commission refinanced the 2003 Graders over 2 additional years instead of paying the balloon payments during 2008.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE G--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

Notes Payable--Michigan Department of Transportation

On August 1, 2002, the Montcalm County Road Commission borrowed \$2,000,000 at interest rates ranging from 2 to 3.4%. Payments are to be made in varying amounts for 10 years from the Michigan Department of Transportation Fund Revenue Notes of 2003 to defray the cost of constructing certain road improvements and facilities under the provisions of Public Act 143 of 1943.

Principal and interest requirements to maturity are as follows:

Maturity Year	Principal Outstanding 09/30/08	February Interest	August Interest	Total Annual Payments
2009	\$ 200,000	\$15,200	\$15,200	\$ 230,400
2010	200,000	12,650	12,650	225,300
2011	200,000	9,750	9,750	219,500
2012	200,000	6,650	6,650	213,300
2013	200,000	3,400	3,400	206,800
Total	<u>\$1,000,000</u>	<u>\$47,650</u>	<u>\$47,650</u>	<u>\$1,095,300</u>

Installment Lease Purchase Agreement--Caterpillar Financial Services

The Montcalm County Road Commission entered into a lease agreement for \$176,944 at 4% interest on February 1, 2002 from Caterpillar Financial Services for the purpose of financing a grader. The lease agreement called for 59 monthly payments of principal and interest of \$1,674.96 and one payment of \$105,000 which was refinanced.

The Montcalm County Road Commission entered into a lease agreement for \$128,175 at 4% interest on February 1, 2002 from Caterpillar Financial Services for the purpose of financing a grader. The lease agreement called for 59 monthly payments of principal and interest of \$776.80 and one payment of \$105,000 which was refinanced.

On February 1st, 2008, the Montcalm County Road Commission combined into one agreement the above leases (which called for balloon payments) in the amount of \$210,000, at 4% interest with Caterpillar Financial Services for the two graders. The lease agreement extended the time to pay into 26 monthly payments of principal and interest of \$9,188.48.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE G--LONG-TERM DEBT (Continued)

Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Principal Outstanding 09/30/08</u>	<u>Interest Payable if Held to Maturity</u>	<u>Annual Payments</u>
2009	\$ 106,205	\$ 4,057	\$110,262
2010	<u>36,534</u>	<u>221</u>	<u>36,755</u>
Total	<u>\$142,739</u>	<u>\$ 4,278</u>	<u>\$147,017</u>

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee. Vacation earned in 1 year is credited to employees on January 1st of the following year. An employee may accumulate up to and carry over from year-to-year 5 days of paid vacation.

Sick leave is no longer earned effective November 28, 1988. The hours accumulated to that date are banked, and up to 3 days per occurrence may be used from the bank, after which disability insurance goes into effect. There is no pay out for the sick leave. Personal paid time off is being given in-lieu-of sick time.

Upon termination of employment through retirement or death, vacation pay is payable at 100%, not to exceed 30 days payment (240 hours).

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Montcalm County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death allowance, duty-connected death allowance, post-retirement adjustments, and death-after-retirement surviving spouse benefit. The service requirement for general employees is under the B-2 provision of the retirement contract. This requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0% of the final average compensation (FAC). The service requirement for salaried employees and commissioners is under the B-4 provision of the retirement contract. This requirement is computed using the same criteria as the B-2 provisions except a sum of 2.5% of the FAC is used. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2007.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a), State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units and requires a 1.5% contribution from general employees and a 3.5% contribution from salaried employees and commissioners. The employees contributed \$40,626 during the calendar year ended December 31, 2007. The Road Commission is required to contribute at an actuarially determined rate; the rate was 13.04% for general employees and 25.53% for the salaried employees and commissioners for the calendar year ending December 31, 2007.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost was \$433,737. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
2005	\$ 373,284	100%
2006	489,512	100%
2007	433,737	100%

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/05	\$8,035,791	\$11,380,187	\$ 3,344,396	71%	\$2,089,052	160%
12/31/06	8,660,369	12,091,658	3,431,289	72%	1,919,975	179%
12/31/07	9,183,285	12,610,748	3,427,463	73%	1,884,740	182%

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims other than dental and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunk-line liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE I--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Montcalm County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

Dental claims are paid by the Road Commission to the employee up to a maximum per household. Benefits lapse at year end.

NOTE J--POST-EMPLOYMENT BENEFITS

Montcalm County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The employer will pay all costs for health and vision insurance and prescription drugs, including spouse, for all vested employees who retire at age 60. The employer continues to pay the premiums until age 65. At age 65, retirees must reimburse the employer for the cost of insurance. For employees choosing to retire at age 55 with at least 15 years of service during an open window period, the Road Commission will pay ½ of the retiree's/spouse's monthly health insurance premium until the retiree turns age 60. The Road commission pays 100% of the retiree's health insurance premium from age 60-65.

Currently, 28 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Premiums paid by the Road Commission for the fiscal year ending September 30, 2008 totaled \$101,732. The expenditures are recognized as the insurance premiums become due on a pay-as-you-go-basis.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2008, the Federal aid received and expended on behalf of the Road Commission was \$570,538 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

NOTE L--CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

Claims, Judgements, and Litigation

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

Greenville Salt Shed Construction

The Road Commission has an outstanding contract in the amount of \$140,116 for the completion of the Greenville Salt Shed. Funds have been set aside to pay the contract when the work is completed. It is anticipated the project will be complete by December 31, 2008.

NOTE M--STATE TRUNKLINE MAINTENANCE REVENUE

The \$38,178 difference between the State trunkline maintenance revenues of \$1,138,577 and expenditures of \$1,100,399 is primarily due to an error correction for expenditures in the amount of \$140 due to the reporting process and the MDOT adjustment of \$38,038 owed to Montcalm County Road Commission.

MONTCALM COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES--BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2008

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
National Forest Reserve	\$ 590	\$ 570	\$ 569	\$ (1)
Licenses and Permits				
Permits	14,500	18,000	18,115	115
Federal Grants				
Critical Bridge	471,853	504,225	501,318	(2,907)
High Priority	60,000	63,537	69,220	5,683
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,033,215	3,048,220	3,046,012	(2,208)
Local Road	2,286,980	2,297,455	2,296,123	(1,332)
Urban Primary	26,495	28,630	28,615	(15)
Urban Local	6,688	6,790	6,787	(3)
Snow Removal	249	265	265	-
Critical Bridge	60,347	95,500	93,997	(1,503)
State Buy Back--Federal Aid Exchange	711,000	718,615	718,614	(1)
State Contribution Salt Storage Shed	150,000	167,491	176,106	8,615
Contributions--Local Units				
Townships	1,850,000	1,835,640	1,813,068	(22,572)
Charges for Services				
State Trunkline Maintenance	1,087,500	1,142,315	1,138,577	(3,738)
State Trunkline Non-Maintenance	75,000	118,290	117,330	(960)
Salvage Sales	5,000	17,000	16,916	(84)
Interest and Rents				
Interest Earned	175,000	134,365	133,484	(881)
Other Revenue				
Private Contributions	-	15,200	15,155	(45)
Sundry Refunds	-	4,300	4,280	(20)
Total Revenues	10,024,417	10,226,408	<u>\$ 10,204,551</u>	<u>\$ (21,857)</u>
Fund Balance--October 1, 2007	<u>2,314,140</u>	<u>2,314,140</u>		
Total Budget	<u>\$ 12,338,557</u>	<u>\$ 12,540,548</u>		

MONTCALM COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2008

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 488,304	\$ 1,189,794	\$ 1,135,310	\$ 54,484
Routine and Preventive Maintenance	1,092,229	1,516,418	1,448,512	67,906
Local Road				
Preservation/Structural Improvement	1,091,018	1,122,985	1,060,960	62,025
Routine and Preventive Maintenance	3,085,784	4,061,105	3,941,512	119,593
Primary Road Structure				
Preservation/Structural Improvement	3,900	14,550	14,432	118
Local Road Structure				
Preservation/Structural Improvement	412,108	739,816	731,707	8,109
State Trunkline				
Maintenance	1,077,295	1,128,429	1,100,399	28,030
Non-Maintenance	100,000	117,335	117,330	5
Non-Motorized Transportation	-	91,500	97,171	(5,671)
Equipment Expense--Net	10,834	(266,708)		
Direct			\$ 1,047,835	
Indirect			371,050	
Operating			612,672	
Less: Equipment Rentals			<u>(2,414,284)</u>	(382,727)
				116,019
Fringe Benefits	1,486,236	-		-
Distributive Expense	491,592	-		-
Administrative Expense--Net	239,919	411,515		
Administrative Expense			532,564	
Less: Overhead--State Trunkline			(108,712)	
Overhead--Other			(9,397)	
Purchase Discounts			<u>(17,658)</u>	396,797
				14,718
Capital Outlay--Net	(136,080)	11,145		
Capital Outlay			333,957	
Less: Depreciation Credits			<u>(305,107)</u>	28,850
				(17,705)
Debt Service				
Principal	311,000	273,955	273,955	-
Interest and Fiscal Fees	34,900	44,261	44,260	1
Total Expenditures	9,789,039	10,456,100	<u>\$ 10,008,468</u>	<u>\$ 447,632</u>
Fund Balance--September 30, 2008	2,549,518	2,084,448		
Total Budget	<u>\$ 12,338,557</u>	<u>\$ 12,540,548</u>		

**MONTCALM COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2008**

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,799,092	\$ 4,715,707	\$ 1,689,752	\$10,204,551
Total Expenditures	2,645,106	5,775,887	1,587,475	10,008,468
Excess of Revenues Over (Under) Expenditures	1,153,986	(1,060,180)	102,277	196,083
Other Financing Sources and (Uses)				
Optional Transfer	(913,804)	913,804		-
Interfund Transfer		146,376	(146,376)	-
Total Other Financing Sources and (Uses)	(913,804)	1,060,180	(146,376)	-
Excess of Revenues and Other Sources and (Uses) Over (Under) Expenditures	240,182	-	(44,099)	196,083
Fund Balance--October 1, 2007	1,038,181	-	1,275,960	2,314,141
Fund Balance--September 30, 2008	\$ 1,278,363	\$ -	\$ 1,231,861	\$ 2,510,224

MONTCALM COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended September 30, 2008

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
National Forest Reserve			\$ 569	\$ 569
Licenses and Permits				
Permits			18,115	18,115
Federal Grants				
Contracted				
Critical Bridge		\$ 501,318		501,318
High Priority			69,220	69,220
State Grants				
Michigan Transportation Fund				
Engineering	\$ 5,700	4,300		10,000
Allocation	3,046,012	2,296,123		5,342,135
Urban	28,615	6,787		35,402
Snow Removal	151	114		265
Critical Bridge		93,997		93,997
State Buy Back--Federal Aid Exchange	718,614		-	718,614
State Contribution for Salt Shed			176,106	176,106
Contributions From Local Units				
Townships		1,813,068		1,813,068
Charges for Services				
State Trunkline Maintenance			1,138,577	1,138,577
State Trunkline Non-Maintenance			117,330	117,330
Salvage Sales			16,916	16,916
Interest and Rents				
Interest Earned			133,484	133,484
Other Revenue				
Private Contributions	-	-	15,155	15,155
Sundry Refunds			4,280	4,280
Total Revenues and Other Financing Sources	\$ 3,799,092	\$ 4,715,707	\$ 1,689,752	\$ 10,204,551

MONTCALM COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2008

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvement	\$ 1,135,310			\$ 1,135,310
Routine and Preventive Maintenance	1,448,512			1,448,512
Local Road				
Preservation/Structural Improvement		\$ 1,060,960		1,060,960
Routine and Preventive Maintenance		3,941,512		3,941,512
Primary Road Structures				
Preservation/Structural Improvement	14,432			14,432
Local Road Structures				
Preservation/Structural Improvement		731,707		731,707
State Trunkline				
Maintenance			\$ 1,100,399	1,100,399
Non-Maintenance			117,330	117,330
Non-Motorized Transportation			97,171	97,171
Equipment Expense--Net (Per Exhibit H)	(94,189)	(231,358)	(57,180)	(382,727)
Administrative Expense--Net (Per Exhibit H)	123,731	273,066		396,797
Capital Outlay--Net (Per Exhibit H)	17,310		11,540	28,850
Debt Service				
Principal			273,955	273,955
Interest and Fiscal Fees			44,260	44,260
Total Expenditures	\$ 2,645,106	\$ 5,775,887	\$ 1,587,475	\$ 10,008,468



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 22, 2009

Montcalm County Road Commission
Board of County Road Commissioners
619 West Main Street
P.O. Box 337
Stanton, Michigan 48888

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Montcalm County Road Commission, a component unit of Montcalm County, as of and for the year ended September 30, 2008, and have issued our report thereon dated January 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montcalm County Road Commission's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Montcalm County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Montcalm County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montcalm County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Montcalm County Board of Road Commissioners, the Road Commission's management and others within the Road Commission and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 22, 2009

Montcalm County Road Commission
Board of County Road Commissioners
619 West Main Street
P.O. Box 337
Stanton, Michigan 48888

RE: Report to Those Charged With Governance

Dear Board Members:

We have audited the financial statements of the governmental activities of Montcalm County Road Commission for the year ended September 30, 2008, and have issued our report thereon dated January 22, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in the entrance conference and other communications with those charged with governance, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Montcalm County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Montcalm County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 1, 2008.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Montcalm County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending September 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 22, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the township’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the township’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Road Commissioners and management of the Montcalm County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division